Changes to the small companies regime

Steve Collings FMAAT FCCA
Audit and Technical Director
Leavitt Walmsley Associates Ltd

Webinar overview

- Overview of why the changes have occurred
- The new small companies' thresholds
- Impact of the new regime on financial statements
- New FRSSE equivalent

Overview of why the changes are needed

- EU Accounting Directive issued in June 2013
- Objective is to reduce the disclosure information within the accounts
- UK was given until July 2015 to transpose the Directive into company law
- Laid before Parliament on 26 March 2015 and became effective on 6 April 2015
- Most notable change = increased size thresholds for companies
- The FRSSE is to be withdrawn for accounting periods starting on or after 1 January 2016

Company size thresholds

	Turnover	Balance sheet total	No. of employees
Micro-entity	£632,000	£316,000	Not more than 10
Small company	£10.2m	£5.1m	Not more than 50
Small group	Not more than £10.2m net OR £12.2m gross	Not more than £5.1m net OR £6.1m gross	Not more than 50
Satisfy two or more of the above criteria			

Company size thresholds

- Applies to accounting periods commencing on or after 1 January 2016
- Early adoption is permissible (mainly for medium-sized companies which might fall to be classed as small)
- If early adopt, no FRSSE! Adopt the new suite of standards

Micro-entities

- FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime*
- Eligibility criteria is very strict!
  - No LLPs
  - No charities
  - No companies in the Republic of Ireland
  - No financial/credit institutions
  - No public companies
  - No micros whose accounts are consolidated

Micro-entities

- Careful thought needs to go into considering if FRS 105 is appropriate
- Factors to consider:
  - Eligibility criteria
  - Rate of growth
  - Views of lenders/creditors
  - Client's wishes

Impact of FRS 105 on financial statements

FRS 105	The FRSSE
Deeming provisions	True and fair view
Two primary statements	STRGL required
Format 2 P&L only	Format 1 or Format 2
Condensed formats	Disaggregation of balance sheet
Reduced disclosures	More disclosures required
No accounting policy choices	Can capitalise development/borrowing costs
No revaluations/fair values	Revaluations/fair values permitted
No deferred tax	Deferred tax required

FRS 102 with reduced disclosure (the new FRSSE)

- Applied by small companies and micros not choosing FRS 105
- Issued September 2015
- New Section 1A *Small Entities*
- Section 1A outlines presentation and disclosure requirements
- Full recognition and measurement principles will apply though!

FRS 102 with reduced disclosure (the new FRSSE)

- Appendix C = legally required disclosures (reflecting revised Companies Act 2006)
- Appendix D = encouraged disclosures:
  - Statement of compliance with FRS 102
  - Statement that entity is a PBE (if applicable)
  - Going concern disclosures
  - Dividends paid/payable
  - Transitional information

FRS 102 v the FRSSE

	FRS 102 WRD	The FRSSE
Deferred tax	Timing difference plus	Timing difference
Goodwill	Presumed max life of 10 years if cannot be assessed	Presumed max life of 5 years if cannot be assessed
Goodwill	Cannot be indefinite	Can be indefinite
Imputed interest rates	Required where loan is not at market value	Not required if loan is not at market value
Investment property	FV gains and losses = P&L	FV gains and losses = revaluation reserve
Related parties	Less disclosure (due to CA06 revisions)	More disclosure requirements

FRS 102 other issues

- Derivative instruments to be recognised on balance sheet (not done under the FRSSE)
- Contracted rate for foreign currency not permitted in FRS 102 (can be used in FRS 105)
- Employee holiday pay accruals needed
- New performance method for grants

Disclosure requirements for a small company

- Accounting policies adopted
- Fixed assets revaluation table
- Fair valuation note
- Financial commitments, guarantees and contingencies not on balance sheet
- Advances and credits granted
- Exceptional items
- Amounts due/payable after more than 5 years and entire debts covered by valuable security

Disclosure requirements for a small company

- Average number of employees in the year (NEW)
- Fixed assets note
- Name/registered office of undertaking drawing up consolidated accounts of the smallest body of undertakings of which the undertaking forms part
- Nature/business purpose of arrangements not on the balance sheet
- Nature/effect of post balance sheet events
- (Limited) related party disclosures

Consequences of the new regimes

- FRS 102/105 are both applied retrospectively to the **date of transition**
- Date of transition = start date of earliest period reported in the accounts, hence:
  - 31 December 2016 = current year
  - 31 December 2015 = comparative year
  - 1 January 2015 = start date of comparative year
  - 1 January 2015 = date of transition

Consequences of the new regime

- Prior year profit/loss and equity balances will change
- Tax implications need consideration
- Additional disclosure requirements encouraged for small companies (advised to make disclosure where transition has a material impact)
- HMRC have issued an overview paper
- Google ‘FRS 102 Overview Paper’ and it will be a 44-page PDF

Consequences of the new regime

- What if reserves become negative due to transition – i.e. impact on dividends previously declared?
- What do I advise my client?
- Which regime do I choose (FRS 102 or FRS 105?)

Conclusion

- Understand the differences between old and new UK GAAP (plenty of articles in the AAT CPD Interactive Zone)
- Advise clients about potential profit/loss and equity fluctuating to avoid any unpleasant surprises
- Consider impact on client's bookkeeping systems
- Consider the tax implications (HMRC overview paper and AAT article March 2015 in CPD Interactive Zone)
- Make sure your software is geared up for the change!

Webinar close

- Thank you for attending

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